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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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SENSITIVE

STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENTFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER

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BEXP, KIPR, KWMN, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
JANUARY 12 TO JANUARY 16, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of January 12-16, 2009, including the
following:

- Trade Roundtable with Canada, EU, NZ, Australia
- Update on the Pension Sector
- FDI Slows in November
- Aviation Industry Likely to Fare Better in 2009
- Only 37 Foreign Companies Invest in Single-Brand Retail
- Shipment of Indian Drugs Seized in the Netherlands

Trade Roundtable with Canada, EU, NZ, Australia

¶2. (SBU) Econ Couns attended a January 16 lunch roundtable hosted by
the Canadian High Commission for visiting chief trade negotiator
(and former Canadian ambassador to the WTO and NAMA chair) Don
Stephenson where officials discussed their experiences of bilateral
trade negotiations with the GOI. Stephenson noted that Canada's CEO
Roundtable had asked the GOC to look into the possibility of a
comprehensive FTA with India and he wished to understand how other
countries had approached trade talks. The EU is in the midst of a
FTA negotiation which is taking longer than expected (with an
original targeted completion in late 2008). New Zealand and
Australia are separately conducting Joint Study Groups with the GOI
on the broad parameters of an FTA. The GONZ hopes to formally
launch FTA elections before the Indian national election; although
it realizes that may not be possible. Meanwhile, Canada negotiated
a FIPA with India in July 2007, but has not managed to exchange
texts.

¶3. (SBU) All countries present emphasized the significant lack of
capacity and coordination in the GOI to handle an FTA negotiation,
especially when faced with multiple, simultaneous talks with
different countries. Many officials cited the Indo-ASEAN FTA as
symbolic of the difficulties of bilateral talks, noting that even
with strategic Indian interest, and a developing
country-to-developing country format, it had taken many years to
come close to completion. The GOI was very tactical and cautious in
talks. GOI trade officials also negotiated in a very defensive
mode, not focusing on offensive interests and sectors of export
interest. Stephenson noted that Canada's Trade Minister would

arrive next week to hold some exploratory discussions with Commerce Minister Kamal Nath.

Update on the Pension Sector

14. (U) The Pension Fund and Regulatory Development Authority (PFRDA) continues with its efforts to open the New Pension Scheme (NPS) to private sector investors, mainly those in the informal sector, who are not covered by the Employee Provident Fund. Media report that the PFRDA has received about 20 applications from various financial sector players (mainly life insurance and asset management firms) for managing the private retirement funds for individuals on a voluntary basis. The current state-owned fund managers SBI Pension Fund, LIC Pension Fund, and UTI Pension Fund have also applied to manage the private pension sector business. The PFRDA is expected to shortlist the fund managers for the technical evaluation by January 16 and the final selection will be made by end-February. Significantly, the application guidelines permit FDI up to 26 percent in the fund management company, which PFRDA requires to be a new, separate company from the parent company. The government has determined that the FDI cap in the pension sector must mirror that in the insurance sector. Should the insurance FDI cap be raised from 26 to 49 percent, as pending legislation proposes, the FDI ceiling in the pension sector should rise accordingly.

15. (U) Newspapers also report that the PFRDA has invited bids from banks and regulated non-banking finance companies and institutions to be appointed as points-of-presence (PoPs), which will be the interface with the investors. The PFRDA will register designated

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branches of PoPs as service providers for five years in the first phase. The PoPs would offer services such as collection of regular contributions, changes in subscriber details, switching of schemes or fund manager, withdrawal requests and print-outs of account statements. The pension system will be two-tiered with the first one being a non-withdrawable pension account and the second one being a withdrawable savings account.

FDI Slows in November

16. (SBU) New data from the Reserve Bank of India (RBI) shows that foreign direct investment (FDI) into India, which was at a new high for much of 2008, slowed in November. Robust FDI flows had soared, with April-September FDI up 137 percent compared to the same period in 2007. Analysts credited this to investors' assessment that India's long-term growth story was still intact, even as the storm clouds regarding the financial and economic slowdown were brewing. The FDI surge provided a welcome counterweight to more than \$10 billion in portfolio outflows. However, the global liquidity crisis has now started to bite, with October and November 2008 down roughly one-third over the same two months in 2007. The government had set a target of \$35 billion for the fiscal year (ending March 2009), which it might miss if FDI continues to slow. April to November 2008 was still up 81 percent over the same period in 2007.

Aviation Industry Likely to Fare Better in 2009

17. (U) Due to the economic slowdown, higher fixed costs, particularly for aviation turbine fuel (ATF), and an increase in ticket prices, the year 2008 saw negative domestic passenger growth for the airlines. The GOI stated that passenger traffic declined by five percent with 411,000 passengers flying in 2008, compared to 433,000 in 2007. Moreover, 2007 was a record year for Indian aviation with passenger traffic increasing by 32 percent from 2006 which witnessed 327,000 passengers. During most of 2008, airlines faced increasing losses due to high fuel prices and excess capacity which forced the airlines in turn to keep ticket prices high. As a cost saving measure, airlines reduced capacity, resulting in nearly 23 aircraft being removed from the registry in 2008. In 2009,

analysts predict that India's aviation industry is likely to recover from the shocks of 2008 mainly because of significantly lower ATF prices. The Center for Asia Pacific Aviation (CAPA's) Policy Outlook 2009 states that while passenger demand will remain low in the first half of 2009, it will improve in the later part of the year.

¶18. (U) Over the last four years, the aviation industry has incurred losses of over US \$3 billion. If oil prices stabilize around \$50 per barrel, airline losses, particularly in India which levies high sales taxes on ATF, will come down significantly. With airlines already reducing fares and cutting other costs, air traffic is expected to return to the 2007 growth rates.

Only 37 Foreign Companies Invest in Single-Brand Retail

¶19. (U) In an update on FDI in the retail sector, local media report that approximately 37 foreign companies have entered the Indian market since the GOI allowed 51 percent foreign direct investment in single-brand retail in early 2006. Several well-known brands in segments including fashion, apparel, footwear, watches, sports equipment and luggage have entered the country either through joint ventures or through licensing agreements with local partners. There are reportedly still several brands, including Diesel and Starbucks, holding out for a more liberal FDI policy in retail. Ikea claims to be waiting for the policy to change rather than enter the Indian market with a local partner. As real estate costs and rental prices in malls and retail locations fall, industry representatives are

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hopeful barriers to entry in retail will seem more reasonable and attract more single-brand FDI.

Shipment of Indian Drugs Seized in the Netherlands

¶10. (U) A consignment of drugs from Dr Reddy's Laboratories Ltd being shipped from India to Brazil was seized by Dutch customs authorities on charges of patent infringement. The shipment is the first from a large Indian company to be seized and has reportedly angered Indian commerce officials, who have called the seizure an "act of piracy by the European Union." The event comes amid a growing number of shipments from small and medium-sized bulk drug-makers being seized in European ports while in route to South America and Africa. Indian pharmaceutical representatives, concerned the seizures will cause a standstill in exports, are pressuring the GOI to challenge the EU law that allows for seizure. Meanwhile, small and medium Indian companies are using different routes to avoid EU ports.

¶11. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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